

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 HEW-02 CIAE-00 DODE-00 INR-07 NSAE-00

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FRB-03 TRSE-00 XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01

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FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC 9527

LIMITED OFFICIAL USE SAN JOSE 0911

E.O. 11652: N/A

TAGS: EFIN, CS

SUBJECT: FAMILY ALLOWANCES LAW

1. A SIGNIFICANT TRANSITIONAL PROBLEM WITH COSTA RICA'S FAMILY ALLOWANCES LAW IS THAT IT IS WITHDRAWING FUNDS FROM ONE PART OF THE ECONOMY DURING A PERIOD OF RECESSION WITHOUT MAKING THE PROJECTED PAYMENTS TO RECIPIENTS. SINCE JANUARY 1, A 2 PERCENT TAX HAS BEEN APPLIED TO PAYROLLS AND THE SALES TAX HAS BEEN COLLECTED AT A LEVEL 3 PERCENTAGE POINTS HIGHER (8 PERCENT RATHER THAN THE FORMER 5 PERCENT LEVEL) IN ORDER TO PROVIDE PAYMENTS AND SERVICES TO THE POOR. BUT THE PROGRAMS TO ASSIST THE POOR ARE STILL IN THE PLANNING FFAGE AND CONSIDERABLE TIME WILL LAPSE BEFORE THEY CAN BE IMPLEMENTED.

2. EMBOFFS RECENTLY DISCUSSED THIS PROBLEM WITH FERNANDO NARANJO, CHIEF ADVISOR TO THE MINISTER OF THE PRESIDENCY AND RESPONSIBLE FOR COORDINATING ECONOMIC AND SOCIAL POLICY. NARANJO CONFIRMED THAT IT WILL NOT BE POSSIBLE TO DISBURSE OLST OF THE FUNDS TO BE COLLECTED UNDER THE FAMILY ALLOWANCES PROGRAM FOR SOME TIME TO COME. THE NUTRITION PROGRAM, WHICH HAS TOP PRIORITY, CAN ONLY BE IMPLEMENTED SLOWLY, HE SAID, BECAUSE IT WILL TAKE TIME TO CREATE THE NECESSARY DISTRIBUTION FACILITIES. NARANJO DID

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NOT SEEM WORRIED ABOUT THE PROBLEM, HOWEVER. HE SAID THAT THE

GOVERNMENT WOULD USE THE MONEY FOR "OTHER PURPOSES" UNTIL IT IS
NEEDED FOR THE FAMILY ALLOWANCES PROGRAM.

3. COMMENT: IF THE MONEY COLLECTED FOR THE FAMILY ALLOWANCES
PROGRAM IS USED BY THE GOVERNMENT FOR ORDINARY GOVERNMENT
EXPENDITURES, IT WILL BE DIFFICULT TO WITHDRAW IT SUBSEQUENTLY
WHEN THE FAMILY ALLOWANCES PROGRAM IS READY KDR IMPLEMENTATION.
THIS IS THE CASE BECAUSE TI WILL BE DIFFICULT TO SHRINK THE
ACTIVITIES THAT WILL HAVE BEEN EXPANDED WITH THE SURPLUS FUNDS.
THUS, IF THE GOVERNMENT IS NOT CAREFUL IT WILL FIND ITSELF IN
THE POSITON OF HAVING LEVIED HEAVY NEW TAXES ON THE ECONOMY
WITHOUT BEING IN A POSITION TO ACCOMPLISH THE PURPOSES FOR
WHICH THOSE TAXES WERE IMPOSED.

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